



MCI Telecommunications
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

December 21, 1992

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Ms. Donna Searcy
Secretary
Federal Communication Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: In the Matter of: Admendment of Part 69 Allocation of General Support
Facility Costs, CC Docket 92-222.

Dear Ms. Searcy,

Enclosed herewith for filing are the original and nine (9) copies of MCI Telecommunications Corporation's Reply Comments in the above reference matter.

Please acknowledge receipt by affixing an appropriate notation on the copy of MCI's Petition, furnished for such purpose and remit same to the bearer.

Yours truly,

Gregory J. Darnell
Manager, Regulatory Analysis

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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OFFICE OF THE SECRETARY

In the Matter of:

Amendment of Part 69 Allocation
of General Support Facility Costs

CC Docket No. 92-222

REPLY COMMENTS OF MCI TELECOMMUNICATIONS CORPORATION

Pursuant to the Notice of Proposed Rulemaking (NPRM), released October 19, 1992 in the above referenced matter, MCI Telecommunications Corporation (MCI) hereby submits its reply to the comments filed on the proposed revision to the Part 69 rules used to allocate General Support Facilities (GSF) costs between the access elements.

There were twenty-one filings which supported the Commission's proposed revision and one filing in opposition.¹ There were five issues discussed in the comments filed in this proceeding. In the following, MCI will address these five issues individually.

¹ In the Matter of Amendments of Part 69 Allocation of General Support Facility Costs, CC Docket No. 92-222, Comments filed, December 4, 1992. Comments filed in Support of the Commission's proposed Part 69.307 rules were made by: Rochester Telephone, p. 2, Southern New England Telephone, p. 2, General Services Administration, p. 3, NECA, p. 2, The Ameritech Operating Companies, p. 3, John Staurulakis, Inc., p. 2, United Telephone Companies, p. 4, Sprint, p. 1, GTE, p. 2, Pacific Telesis, p. 2, GVNW, Inc., p. 1, Bell Atlantic, p. 1, MFS Communications, p. 3, BellSouth, p. 3, U S West, p. 2, NYNEX, p. 2, Cincinnati Bell, p. 2, USTA, p. 6, Southwestern Bell, p. 6, AT&T p. 3, and MCI Communications, p. 2. Comments filed in Opposition to the proposed Part 69.307 rules made by The Public Service Commission of the District of Columbia, p. 2 (Comments).

I. General Consensus Exists that the Proposed Revision Represents a Reasonable Short Term Settlement for Resolving GSF Cost Misallocation

A general consensus exists that the Commission's proposed Part 69.307 modification represents a reasonable short term solution for resolving the existing GSF cost misallocation yet it fails to deal with the core deficiencies in the underlying costing and ratemaking methodologies at the federal level. In selective passages taken from MFS's and Bell Atlantic's Comments, MCI believes this issue was illuminated best. These Comments state:

[a]ny such [fully distributed cost] allocation method is *inherently* arbitrary. The Commission's proposal would merely replace one arbitrary method of allocating common costs with a different arbitrary method.. . . The Commission's objective should be to require each service element to bear a portion of the common costs that approximate the amount that could be recovered in a competitive market.. . . This [the proposed Part 69.307 revision] change may be justified if the Commission determines that its proposed allocation will more closely reflect the hypothetical operation of market forces in a fully competitive market than does the present rule.²

In the long run, however, the Commission cannot continue to address cost misallocations and subsidies with such interim Band-Aides. What is needed is a comprehensive re-examination of access charges and adoption of a more rational structure for the competitive marketplace.³

The issues of proper cost allocation and re-examination of access charges have been presented at length in the Collocation proceeding.⁴ In MCI's Reply Comments in this proceeding it states, "[T]he key to making cost allocation work as best it can in the

² MFS Comments, pp. 3, 4 & 5.

³ Bell Atlantic, Comments, p. 4.

⁴ In the Matter of Expanded Interconnection with Local Telephone Company Facilities, CC Docket 91-141.

local exchange market is to establish well-reasoned definitions of incremental cost and then devote sufficient resources to ensure that the cost studies based on these principals have been conducted properly."⁵

Until such analyses are carried out, however, it is reasonable for the Commission to adopt its proposed Part 69.307 rule revision because it does correct what is clearly a gross misallocation of costs. However, in the near future, the Commission should begin an investigation to derive well-reasoned, incremental cost-based access charges. If competition continues to grow, the Commission is eventually going to run out of band-aid remedies to cost allocation problems.

II. Several Parties Suggest that the Existing Subscriber Line Charges are an appropriate Mechanism to Contribute towards the Recovery of Noneconomic Costs and Therefore Should be Permitted to Increase

GTE and NYNEX suggest that an the Commission should change the existing caps on the Subscriber Line Charges so that a larger proportion of the uneconomic costs can be recovered on a flat rate basis.⁶ Absent compelling the LECs to recover uneconomic costs directly from the shareholders, cost allocation is a zero sum game. Whatever revenue requirement is pushed out of one category must show up in other categories. In the case of GSF cost reallocation, the revenue requirement being pushed out of Special Access, Local Transport and Switching is showing up in the Base Factor Portion

⁵ In the Matter of Expanded Interconnection with Local Telephone Company Facilities, CC Docket 91-141, Reply Comments of MCI Telecommunications Corporation, filed September 20, 1991, p. 51 (Collocation Proceeding).

⁶ GTE Comments, p. 4, NYNEX Comments, p. 4.

(BFP). Given today's access charge structure, this means that if the LEC's subscriber line charges (SLCs) are at the maximum, BFP cost increases can only be recovered from carrier common line charge increases. While MCI does not take a position herein as to what would be an appropriate change in SLCs, the Commission must consider what, if any, changes are needed to accommodate increased allocations to common line, and/or other revenue requirement shifts.

III. Delay of the GSF Reallocation Would Not Subject LECs to a Confiscatory Taking

Ameritech states that any delay of the GSF reallocation "would risk subjecting LECs to confiscatory taking."⁷ MCI's response to the "taking" argument is part of the record in the Collocation proceeding.⁸ After hearing the arguments on all sides of this issue, the Commission rejected the spurious claims that this requirement constitutes an unlawful taking.⁹ Therefore, this grievance has already been addressed and should not be given any further consideration.

⁷ Ameritech Comments, p. 2.

⁸ See, Reply Comments of MCI Telecommunications Corporation, filed September 20, 1991, pp 83-86.

⁹ Report and Order and Notice of Proposed Rulemaking, In the Matter of Expanded Interconnection with Local Exchange Company Facilities, CC Docket No. 91-141, FCC 92-440, ¶¶ 231-237.

IV. The District of Columbia PSC Has Not Shown that its Market Penetration Problems Were Caused by SLCs and the Existing Universal Service Mechanisms are more than Adequate

The District of Columbia Public Service Commission (D.C. PSC) submits that there is a direct correlation between SLC increases and the decline in the telephone penetration in D.C. in recent years. The D.C. PSC has not shown any support for this claim. AT&T, however, has shown to the contrary that "telephone subscribership has increased from 91.8 percent of households in mid-1985 (when the residential SLCs was first introduced) to 93.9 percent in March 1992."¹⁰

The conclusion, therefore, must be that, nationwide, the existing universal service subsidies have more than adequately done their job and the D.C. PSC has failed to show what unique factors may exist in D.C. that have caused a decline in telephone penetration in spite of the existing subsidy programs.

V. The LECs Should Be Granted Waiver of the Exogenous Change Price Cap rules to accommodate the GSF Re-allocation

The Commission's rules are clear on what can be accepted as an exogenous change to the Price Cap Indices of the LECs.¹¹ The GSF re-allocation is not covered by these rules. Therefore, in order for the Price Cap LECs to reflect the impact of the proposed GSF reallocation in its rates and achieve the anticipated effect, the Commission will have to grant the LECs waiver of these Price Cap rules. If the Commission does not

¹⁰ AT&T Comments, p. 7.

¹¹ 47 C.F.R. 61.45(b)(2)(d).

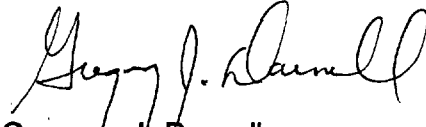
grant the LECs waiver of these Price Cap rules, this proceeding will have none of the desired effects.

VI. Conclusion

The Commission should adopt its proposal to modify Part 69.307 of its Rules as outlined in its Notice of Proposed Rulemaking and grant the LECs waiver of the Part 61.45(b)(2)(d) rules so that the effect of the GSF reallocation can be reflected in the Price Cap LEC's rates.

Respectfully Submitted,

MCI TELECOMMUNICATIONS CORPORATION

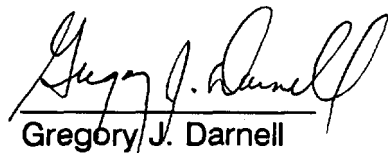
A handwritten signature in black ink, appearing to read "Gregory J. Darnell", is written over the printed name.

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December 21, 1992

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on December 21, 1992.

A handwritten signature in black ink, appearing to read "Gregory J. Darnell", written over a horizontal line.

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I, Carolyn McTaw do hereby certify that copies of the foregoing MCI petition were sent via first class mail, postage paid, to the following on this 21st day of December, 1992:

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